

**CITY OF PETERSBURG**  
Monroe County, Michigan

ANNUAL FINANCIAL REPORT

June 30, 2008

# CITY OF PETERSBURG

## *Table of Contents* *June 30, 2008*

---

<b>Independent Auditor's Report</b> .....	1
<b>Management's Discussion and Analysis</b> .....	2-8
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Assets .....	9
Statement of Activities .....	10-11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet .....	12-13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	15-16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	17
Proprietary Fund - Enterprise Fund:	
Statement of Net Assets .....	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	19
Statement of Cash Flows .....	20
Reconciliation of Operating Income and Cash and Cash Equivalents .....	21
Agency Fund:	
Statement of Fiduciary Net Assets .....	22
Notes to Financial Statements .....	23-39
<b>Required Supplemental Information:</b>	
General Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual .....	40-41
Major Street Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual .....	42
Local Street Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual .....	43
Law Enforcement Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual .....	44

**CITY OF PETERSBURG**

*Table of Contents*  
*June 30, 2008*

---

**Required Supplemental Information: (concluded)**

Library Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

- Budget and Actual .....45

**Other Supplemental Information:**

Library Bond Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

- Budget and Actual .....46



COOLEY HEHL  
WOHLGAMUTH & CARLTON  
P. L. L. C. Certified Public Accountants

James R. Cooley, CPA  
David K. Hehl, CPA  
Robert W. Wohlgamuth, CPA  
Peter H. Carlton, CPA  
Matthew D. Hehl, CPA  
Deborah A. Sabo, CPA  
Nicklaus W. Calkins, CPA

One South Monroe Street • Monroe, Michigan 48161-2230  
Telephone: (734) 241-7200 • Fax: (734) 241-2637  
[www.chwccpa.com](http://www.chwccpa.com)

Members:  
American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants  
Division for CPA Firms American Institute of  
Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and Members  
of the City Council  
City of Petersburg  
Petersburg, MI 49270

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund, and the aggregate remaining fund information of the City of Petersburg, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Petersburg, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund, and the aggregate remaining fund information of the City of Petersburg, Michigan as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Petersburg, Monroe County, Michigan basic financial statements. The individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Cooley Hehl Wohlgamuth & Carlton*

December 3, 2008

## CITY OF PETERSBURG

### *Management's Discussion and Analysis Year Ended June 30, 2008*

---

This section of the City of Petersburg's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary information that presents all the City's revenues and expenditures by program for the General Fund, Special Revenue Funds, Debt Fund, and Proprietary Funds.

#### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Petersburg financially as a whole. The **Government-Wide Financial Statements**, which include the Statement of Net Assets and the Statement of Activities, provide information about the activities of the City as a whole and presents both a short-term and a long-term view of those finances. The **Fund Financial Statements** provide the next level of detail. For governmental activities, these statements explain how services were financed in the short-term as well as what remains for future spending. The **Fund Financial Statements** report the City's operations in more detail than the **Government-Wide Financial Statements** by providing information about the City's most significant funds - the General Fund, the Major Street Fund, the Local Street Fund, the Law Enforcement Fund, the Library Fund, the Library Bond Fund, the Water Fund, and the Sewage Disposal Fund. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the City acts solely as an agent for the benefit of the public. The following summary illustrates how the various parts of this annual report are arranged:

#### *Management's Discussion and Analysis (MD&A) (Required Supplemental Information)*

#### Basic Financial Statements

*Government-Wide Financial Statements      Fund Financial Statements*

*Notes to the Basic Financial Statements*

*Budgetary Information for Major Funds  
(Required Supplemental Information)*

*Other Supplemental Information*

## CITY OF PETERSBURG

### *Management's Discussion and Analysis Year Ended June 30, 2008*

---

#### **Government-Wide Financial Statements**

The Statement of Net Assets and the Statement of Activities (pages 9-11), which appear first in the City's financial statements, report information on the City as a whole and its activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The relationship between revenues and expenses indicates the City's operating results. However, the City's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided and the safety of the public to assess the overall health of the City.

The Statement of Net Assets and Statement of Activities report the governmental activities for the City, which encompass all of the City's services, including general government services, public safety, public works, culture and recreation, property taxes, state grants, and charges for services finance most of these activities.

#### **Fund Financial Statements**

The City's Fund Financial Statements (pages 12-22) provide detailed information about the most significant or "major" funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes other funds to control and manage money for particular purposes or to show that it is properly using revenues. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as described below:

**Governmental funds** - Many of the City's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the City and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation format in the financial section on pages 14 and 17.

**Proprietary fund** - A Proprietary Fund is used to account for business-type activities of the City, which consists of the Water Fund and the Sewage Disposal Fund. These funds account for services provided by the City where the City charges customers for the services it provides. These funds use accrual accounting; the same method used by private sector business.

**Fiduciary fund** - An Agency Fund is used to account for assets held by the City as an agent for the collection and disbursement of property taxes.

# CITY OF PETERSBURG

## Management's Discussion and Analysis Year Ended June 30, 2008

### Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets as of June 30, 2008 and 2007:

**Table 1:**

#### Comparative Statement of Net Assets June 30,

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$1,040,079	\$775,163	\$1,035,367	\$1,067,691	\$2,075,446	\$1,842,854
Capital assets, net	847,941	763,169	4,207,855	4,291,317	5,055,796	5,054,486
<b>Total Assets</b>	<b>1,888,020</b>	<b>1,538,332</b>	<b>5,243,222</b>	<b>5,359,008</b>	<b>7,131,242</b>	<b>6,897,340</b>
Current and other liabilities	60,874	89,660	195,889	186,755	256,763	276,415
Long-term liabilities	310,193	64,993	2,950,000	3,105,000	3,260,193	3,169,993
<b>Total Liabilities</b>	<b>371,067</b>	<b>154,653</b>	<b>3,145,889</b>	<b>3,291,755</b>	<b>3,516,956</b>	<b>3,446,408</b>
Net Assets						
Invested in capital						
assets, net of related debt	537,748	676,455	1,102,855	1,041,317	1,640,603	1,717,772
Restricted	222,947	184,221	558	189	223,505	184,410
Unrestricted	756,258	523,003	993,920	1,025,747	1,750,178	1,548,750
<b>Total Net Assets</b>	<b>\$1,516,953</b>	<b>\$1,383,679</b>	<b>\$2,097,333</b>	<b>\$2,067,253</b>	<b>\$3,614,286</b>	<b>\$3,450,932</b>

As depicted in Table 1, the City's net assets were \$3.4 million at June 30, 2008. Of this amount, a positive \$1.75 million was unrestricted. This amount represents the *accumulated* results of all past years' operations. The unrestricted net asset balance is used for working capital and cash flow needs as well as to provide for future uncertainties. The City's total asset position increased approximately \$234,000 and our liabilities increased approximately \$70,000. The City's building authority joint venture completed the construction and remodel of the Summerfield-Petersburg Library. The City capitalized its portion of the new building and also recorded a capital lease with the Joint Building Authority. The City also sold \$150,000 in bonds to help fund the Brownfield Authority's cleanup of the VanDeilen Industries property. Under normal market conditions, the operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the City as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for the fiscal years ended June 30, 2008 and 2007.

**CITY OF PETERSBURG**

*Management's Discussion and Analysis  
Year Ended June 30, 2008*

**Government-Wide Financial Analysis - Continued**

**Table 2:**

**Comparative Statement of Activities  
June 30,**

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenues</b>						
Program revenues						
Charges for services	\$46,002	\$40,750	\$334,802	\$324,977	\$380,804	\$365,727
Federal, state and local grants	151,344	87,123	0	0	151,344	87,123
	<u>197,346</u>	<u>127,873</u>	<u>334,802</u>	<u>324,977</u>	<u>532,148</u>	<u>452,850</u>
General revenues						
Property taxes	417,008	385,176	69,912	71,891	486,920	457,067
State grants	144,796	145,602	0	0	144,796	145,602
Other general revenues and transfers out	50,768	(237,317)	212,128	470,974	262,896	233,657
	<u>612,572</u>	<u>293,461</u>	<u>282,040</u>	<u>542,865</u>	<u>894,612</u>	<u>836,326</u>
Total Revenues	809,918	421,334	616,842	867,842	1,426,760	1,289,176
<b>Functions/Program Expenses</b>						
Legislative	12,318	14,341	0	0	12,318	14,341
General government	145,726	123,125	0	0	145,726	123,125
Public safety	169,568	142,321	0	0	169,568	142,321
Public works	198,976	250,437	0	0	198,976	250,437
Health and welfare	1,390	10,670	0	0	1,390	10,670
Recreation and cultural	74,793	22,933	0	0	74,793	22,933
Interest on long-term debt	9,117	4,376	0	0	9,117	4,376
Other	64,756	61,855	0	0	64,756	61,855
Sewer	0	0	267,910	251,059	267,910	251,059
Water	0	0	318,852	332,622	318,852	332,622
Total Expenses	<u>676,644</u>	<u>630,058</u>	<u>586,762</u>	<u>583,681</u>	<u>1,263,406</u>	<u>1,213,739</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$133,274</u>	<u>(\$208,724)</u>	<u>\$30,080</u>	<u>\$284,161</u>	<u>\$163,354</u>	<u>\$75,437</u>



## CITY OF PETERSBURG

### *Management's Discussion and Analysis* *Year Ended June 30, 2008*

---

#### **Government-Wide Financial Analysis - Concluded**

As indicated in Table 2, the cost of *all governmental* activities this year was \$676,644. Of this amount, \$197,346 was subsidized with revenue generated from charges for services and grants with the remaining costs financed with general revenues.

The City experienced an increase in net assets of \$133,274 for the current fiscal year. The increase in net assets differs from the change in fund balance. A reconciliation of the change in fund balances for the governmental funds to the change in net assets appears on page 17.

The City participates in the Brownfield Redevelopment Authority (BRA). The BRA was started to help the City with clean up of environmental costs associated with the property purchased from VanDeilen Industries, Inc. The BRA will allow the City to recoup environmental cleanup costs through collection of taxes (See Note 12 on Tax Increment Financing).

#### **Fund Financial Analysis**

As noted earlier, the City uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the City of Petersburg is being held accountable for the resources taxpayers and others provide to it and may give more insight into the City's overall financial health.

As the City completed this year, the funds accounting for the governmental activities reported a combined fund balance of \$949,428, which is a increase of \$264,118 from last year. The changes by fund types are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Fund</u>	<u>Total</u>
<b>Fund balances - Beginning of year</b>	\$522,178	\$163,132	\$ 0	\$685,310
Increase (decrease)	<u>233,507</u>	<u>12,654</u>	<u>17,957</u>	<u>264,118</u>
<b>Fund balances - End of year</b>	<u>\$755,685</u>	<u>\$175,786</u>	<u>\$17,957</u>	<u>\$949,428</u>

The City and Summerfield Township have agreed that the Library will audited as part of the City. The Library Fund in the Fund Financial Statements, shows 100% of the Library activity. An adjustment is made to reconcile the City's 50% share of the library on the Government-wide financial statements.

The Special Revenue funds include among other funds, the Major Street Fund, which routinely accumulates funds for several years before it contracts for major items. During the fiscal year ended June 30, 2008, the Major Street Fund had revenues of \$64,574 and expenditures of \$31,282.

# CITY OF PETERSBURG

## Management's Discussion and Analysis Year Ended June 30, 2008

### Fund Financial Analysis – Concluded

The City's change in General Fund fund balance is due to many factors. The tables that follow assist in illustrating the financial activities of the General Fund.

	June 30, 2008	June 30, 2007	Percent Change
<b>Revenues</b>			
Property taxes	\$288,891	\$275,151	4.99 %
Licenses and permits	12,104	6,160	96.49 %
State grants	144,796	145,602	(.55)%
Charges for services	10,282	9,574	7.40 %
Interest and rentals	37,384	27,957	33.72 %
Administrative charges	23,616	25,016	(5.60)%
Other	11,481	11,621	(1.20)%
	<u>\$528,554</u>	<u>\$501,081</u>	5.48 %

	June 30, 2008	June 30, 2007	Percent Change
<b>Expenditures</b>			
Legislative	\$12,318	\$ 14,341	(14.11)%
General government	128,449	139,235	(7.75)%
Public safety	65,429	43,181	51.52 %
Public works	124,124	160,398	(22.61)%
Health and welfare	1,390	10,670	(86.97)%
Recreation and cultural	109,921	10,236	973 %
Other	64,756	61,855	4.69 %
Debt Service	25,160	-	-
	<u>\$531,547</u>	<u>\$439,911</u>	20.83 %

### General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the City Council to adopt the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the City may revise its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule illustrating the City's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

**Revenues** - Although no revisions were made to the revenue budget of \$524,317, several factors impact the planning of it. The City relies heavily on property taxes and state shared revenue to fund General Fund expenditures. Property taxes of \$288,891 (up \$13,740 from the prior year) make up 55% of the General Fund revenues. State revenues of \$144,796 (down \$806 from last year) represented approximately 27% of the General Fund revenues. Projected reductions in state-shared revenues, along with a modest increase in taxable value, cause the Council to have a very conservative outlook.

## **CITY OF PETERSBURG**

### *Management's Discussion and Analysis Year Ended June 30, 2008*

---

#### **General Fund Budgetary Highlights - Concluded**

**Expenditures** - The original budget of \$496,442 had revisions only in relation to transfers between programs. General government spending represented 31% of budgeted expenditures while public works were 28%. The public safety budget was amended to increase expenditures by \$26,275 and public works decreased expenditures by \$29,825. The City's recreation and cultural spending exceeded the budget by \$97,493 due to the City not budgeting the effect of the capital lease with the Joint Building Authority. Also the City did not budget the proceeds of the capital lease. The City budgeted an increase of \$14,375 in fund balance; the actual increase was \$83,507.

#### **Capital Asset and Debt Administration**

##### **Capital Assets**

At June 30, 2008, the City had \$7.47 million invested in a broad range of capital assets, including land, land improvements, building and building improvements, machinery and equipment, vehicles, water mains, a waste water treatment plant, and sewer lines. This amount represents a net increase (including additions and disposals) of approximately \$183,000 from last year. This year's additions were largely attributable to the City's investment in the new library building through the JBA. The City also purchased a new police car. Depreciation for this year totaled \$148,804. Detailed information regarding capital assets is included in Note 6 to the financial statements.

##### **Debt Administration**

At June 30, 2008, the City's Governmental Activities had \$310,193 in long term liabilities. This year the City recorded a \$100,000 capital lease with the Joint Building Authority, and issued \$150,000 in bonds to assist in the Brownfield Redevelopment Authority's cleanup costs. The JBA capital lease is financed through a local millage collected in the Library Bond Fund, and the bonds will be financed through the General Fund.

At June 30, 2008, the City had \$3,105,000 in bond payables on the construction of the sewer plant upgrades and on the water main and pumping station. The bonds for the sewer plant upgrades will be repaid out of a property tax assessment. The water main and pumping station bonds will be paid through the combination of a one-time tap-in charge and a quarterly debt service charge. Detailed information regarding the City's debt is included in Note 8 to the financial statements.

#### **Contacting the City of Petersburg**

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the City Treasurer for assistance.

# CITY OF PETERSBURG

## Statement of Net Assets June 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Brownfield Redevelopment Authority
<b>Assets</b>				
Cash and cash equivalents	\$214,720	\$517,916	\$732,636	\$0
Investments	280,716	440,444	721,160	0
Accounts/taxes/interest receivable	3,884	132,502	136,386	0
Due from other governmental units	46,546	0	46,546	0
Due from component unit	365,218	0	365,218	0
Investments in joint ventures:				
Summerfield-Petersburg Library	48,235	0	48,235	0
Summerfield-Petersburg JBA	1,410	0	1,410	0
Internal balances	56,453	(56,453)	0	0
Prepaid expenses	22,897	0	22,897	0
Restricted Assets:				
Cash and cash equivalents	0	558	558	0
Depreciable capital assets, net	847,941	4,207,855	5,055,796	
Deposits - noncurrent	0	400	400	0
Total Assets	1,888,020	5,243,222	7,131,242	0
<b>Liabilities</b>				
Accounts payable	59,374	16,842	76,216	0
Accrued interest payable	1,500	24,047	25,547	0
Due to primary government	0	0	0	365,218
Long-term liabilities:				
Due within one year	52,519	155,000	207,519	0
Due in more than one year	257,674	2,950,000	3,207,674	0
Total Liabilities	371,067	3,145,889	3,516,956	365,218
<b>Net Assets</b>				
Invested in capital assets, net of related debt	537,748	1,102,855	1,640,603	0
Restricted for:				
Capital projects	0	558	558	0
Road improvements	100,532	0	100,532	0
Library	48,235	0	48,235	0
Library building	1,410	0	1,410	0
Debt service	17,957	0	17,957	0
Law enforcement	54,813	0	54,813	0
Brownfield Redevelopment Authority	0	0	0	(365,218)
Unrestricted	756,258	993,920	1,750,178	0
Total Net Assets	\$1,516,953	\$2,097,333	\$3,614,286	(\$365,218)

See accompanying notes to the basic financial statements.

**CITY OF PETERSBURG**

*Statement of Activities*  
*Year Ended June 30, 2008*

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
Legislative	\$12,318	\$0	\$0
General government	145,726	33,898	0
Public safety	169,568	12,104	825
Public works	198,976	0	150,519
Health and welfare	1,390	0	0
Recreation and cultural	74,793	0	0
Interest on long-term debt	9,117	0	0
Other	64,756	0	0
Total Governmental Activities	676,644	46,002	151,344
Business-type activities:			
Water	318,852	131,079	0
Sewer	267,910	198,307	0
Total business type activities	586,762	329,386	0
Total primary government	<u>\$1,263,406</u>	<u>\$375,388</u>	<u>\$151,344</u>
Component Unit:			
Brownfield Redevelopment Authority	<u>\$331,753</u>	<u>\$0</u>	<u>\$0</u>
General Revenues:			
Property taxes			
State grants			
Debt service and connection charges			
Interest and rentals			
Other revenue			
Total General Revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Brownfield Redevelopment Authority
(\$12,318)	\$0	(\$12,318)	\$0
(111,828)	0	(111,828)	0
(156,639)	0	(156,639)	0
(48,457)	0	(48,457)	0
(1,390)	0	(1,390)	0
(74,793)	0	(74,793)	0
(9,117)	0	(9,117)	0
(64,756)	0	(64,756)	0
(479,298)	0	(479,298)	0
0	(187,773)	(187,773)	0
0	(69,603)	(69,603)	0
0	(257,376)	(257,376)	0
(479,298)	(257,376)	(736,674)	0
0	0	0	(331,753)
417,008	69,912	486,920	0
144,796	0	144,796	0
0	179,625	179,625	0
43,036	36,053	79,089	0
7,732	1,866	9,598	0
612,572	287,456	900,028	0
133,274	30,080	163,354	(331,753)
1,383,679	2,067,253	3,450,932	(33,465)
<u>\$1,516,953</u>	<u>\$2,097,333</u>	<u>\$3,614,286</u>	<u>(\$365,218)</u>

**CITY OF PETERSBURG**

*Governmental Funds  
Balance Sheet  
June 30, 2008*

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
<b>Assets</b>			
Cash and cash equivalents	\$50,353	\$62,329	\$55,363
Investments	228,914	0	0
Accounts/taxes receivable	1,811	0	0
Due from other governmental units	46,546	0	0
Due from component unit	365,218	0	0
Due from other funds	76,688	2,000	1,600
Prepaid expense	22,897	0	0
	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$792,427</u>	<u>\$64,329</u>	<u>\$56,963</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$36,742	\$0	\$0
Due to other funds	0	12,532	8,228
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	36,742	12,532	8,228
<b>Fund Balances</b>			
Reserved for prepaid expenses	22,897	0	0
Reserved for debt service	0	0	0
Unreserved:			
Undesignated, reported in:			
General Fund	732,788	0	0
Special Revenue Funds	0	51,797	48,735
	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	755,685	51,797	48,735
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balances	<u>\$792,427</u>	<u>\$64,329</u>	<u>\$56,963</u>

See accompanying notes to the basic financial statements.

Law Enforce. Fund	Library Fund	Library Bond Fund	Total Governmental Funds
\$28,718	\$20,441	\$17,957	\$235,161
51,802	0	0	280,716
0	0	0	1,811
0	0	0	46,546
0	0	0	365,218
0	0	0	80,288
0	0	0	22,897
<u>\$80,520</u>	<u>\$20,441</u>	<u>\$17,957</u>	<u>\$1,032,637</u>
\$22,632	\$0	\$0	\$59,374
3,075	0	0	23,835
25,707	0	0	83,209
0	0	0	22,897
0	0	17,957	17,957
0	0	0	732,788
54,813	20,441	0	175,786
54,813	20,441	17,957	949,428
<u>\$80,520</u>	<u>\$20,441</u>	<u>\$17,957</u>	<u>\$1,032,637</u>



**CITY OF PETERSBURG**

*Reconciliation of the Balance Sheet of the Governmental Funds  
to the Statement of Net Assets  
June 30, 2008*

<b>Total Fund Balances - Governmental Funds</b>		<b>\$949,428</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of the capital assets	\$1,322,325	
Accumulated depreciation	(474,384)	
		<u>847,941</u>
Accrued interest is recorded in net assets when it is receivable; it is not reported until paid in the funds.		2,073
Long-term liabilities, including bonds, notes, and interest payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	(214,993)	
Accrued interest	(1,500)	
Capital lease payable	(95,200)	
		<u>(311,693)</u>
Investments in joint ventures are not financial resources and therefore are not reported in the government funds:		
Summerfield-Petersburg Library	27,794	
Summerfield-Petersburg JBA	1,410	
		<u>29,204</u>
<b>Total Net Assets - Governmental Activities</b>		<b><u>\$1,516,953</u></b>

See accompanying notes to the basic financial statements.

**CITY OF PETERSBURG**

*Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Year Ended June 30, 2008*

	General Fund	Major Street Fund	Local Street Fund	Law Enforcement Fund
<b>Revenues</b>				
Property taxes	\$288,891	\$0	\$0	\$116,106
Licenses and permits	12,104	0	0	0
State grants	144,796	64,115	20,776	825
Charges for services	10,282	0	0	0
Local contributions	0	0	0	0
Interest and rentals	37,384	459	1,052	427
Administrative charges	23,616	0	0	0
Other	11,481	0	0	0
Total Revenues	<u>528,554</u>	<u>64,574</u>	<u>21,828</u>	<u>117,358</u>
<b>Expenditures</b>				
Current Operating:				
Legislative	12,318	0	0	0
General government	128,449	0	0	0
Public safety	65,429	0	0	127,074
Public works	124,124	31,282	23,559	0
Health and welfare	1,390	0	0	0
Recreation and cultural	109,921	0	0	0
Other	64,756	0	0	0
Debt Service:				
Principal	21,721	0	0	0
Interest and other charges	3,439	0	0	0
Total Expenditures	<u>531,547</u>	<u>31,282</u>	<u>23,559</u>	<u>127,074</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,993)	33,292	(1,731)	(9,716)
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of bonds	150,000	0	0	0
Proceeds from capital lease	100,000	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	(13,500)	0	0	0
Total Other Financing Sources (Uses)	236,500	0	0	0
<b>Net Change in Fund Balances</b>	233,507	33,292	(1,731)	(9,716)
Fund Balances - Beginning of year	522,178	18,505	50,466	64,529
Fund Balances - End of year	<u>\$755,685</u>	<u>\$51,797</u>	<u>\$48,735</u>	<u>\$54,813</u>

See accompanying notes to the basic financial statements.

Library Fund	Library Bond Fund	Total Governmental Funds
\$0	\$12,011	\$417,008
0	0	12,104
0	0	230,512
0	0	10,282
13,500	61,629	75,129
2,225	529	42,076
0	0	23,616
500	0	11,981
16,225	74,169	822,708
0	0	12,318
0	0	128,449
0	0	192,503
0	0	178,965
0	0	1,390
38,916	0	148,837
0	0	64,756
0	30,000	51,721
0	26,212	29,651
38,916	56,212	808,590
(22,691)	17,957	14,118
0	0	150,000
0	0	100,000
13,500	0	13,500
0	0	(13,500)
13,500	0	250,000
(9,191)	17,957	264,118
29,632	0	685,310
\$20,441	\$17,957	\$949,428

**CITY OF PETERSBURG**

*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2008*

---

**Total Net Change in Fund Balances - Governmental Funds** \$264,118

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures:

in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(\$38,691)	
Capital outlay	123,463	
	<hr/>	84,772

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid or received.

Accrued interest expense	(1,500)	
Accrued interest income	2,073	
	<hr/>	573

Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

26,521

Long-term debt issuance is reported as an other financing source in the governmental funds. Long-term debt is not a revenue in the statement of activities.

(250,000)

Investments in joint ventures are not financial resources and therefore are not shown on the fund-based statements

Summerfield-Petersburg Library	5,880	
Summerfield-Petersburg JBA	1,410	
	<hr/>	7,290

**Change in Net Assets of Governmental Activities** \$133,274

**CITY OF PETERSBURG**

*Proprietary Funds  
Statement of Net Assets  
June 30, 2008*

	Business-type Activities Enterprise Funds		
	Sewage Disposal	Water	Total
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$168,318	\$349,598	\$517,916
Investments	150,050	290,394	440,444
Receivables	55,356	77,146	132,502
Due from other funds	54,984	487	55,471
Total Current Assets	428,708	717,625	1,146,333
Restricted Assets:			
Cash and cash equivalents	0	558	558
Noncurrent assets:			
Nondepreciable assets	25,118	114,078	139,196
Depreciable assets - net	1,344,864	2,723,795	4,068,659
	1,369,982	2,837,873	4,207,855
Other Assets:			
Deposits	0	400	400
Total Assets	1,798,690	3,556,456	5,355,146
<b>Liabilities</b>			
Current Liabilities:			
Accounts payable	2,321	14,521	16,842
Accrued interest payable	9,797	14,250	24,047
Due to other funds	27,519	84,405	111,924
Current portion of long-term debt	40,000	115,000	155,000
Total Current Liabilities	79,637	228,176	307,813
Noncurrent Liabilities:			
Long-term debt-net of current portion	785,000	2,165,000	2,950,000
Total Liabilities	864,637	2,393,176	3,257,813
<b>Net Assets</b>			
Invested in capital assets, net of related debt	544,982	557,873	1,102,855
Restricted for capital projects	0	558	558
Unrestricted	389,071	604,849	993,920
Total Net Assets	\$934,053	\$1,163,280	\$2,097,333

See accompanying notes to the basic financial statements.

**CITY OF PETERSBURG**

*Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Year Ended June 30, 2008*

	Business-type Activities Enterprise Funds		
	Sewage Disposal	Water	Total
<b>Operating Revenues</b>			
Charges for services	\$191,164	\$125,195	\$316,359
Penalties	7,143	5,884	13,027
Hydrant renta.	0	3,550	3,550
Other revenue	1,483	383	1,866
Total Operating Revenues	199,790	135,012	334,802
<b>Operating Expenses</b>			
Water purchase	0	51,926	51,926
Salaries and fringe benefits	94,460	56,018	150,478
Operating supplies and chemicals	24,158	4,507	28,665
Professional services	4,837	2,400	7,237
Maintenance and repairs	6,902	7,020	13,922
Equipment rental	4,289	672	4,961
Insurance	4,795	2,968	7,763
Contracted services	20,549	9,144	29,693
Utilities	30,463	3,998	34,461
Office and administration	911	2,601	3,512
Miscellaneous	1,458	3,120	4,578
Depreciation	35,544	113,260	148,804
Total Operating Expenses	228,366	257,634	486,000
Operating Income (Loss)	(28,576)	(122,622)	(151,198)
<b>Non-Operating Revenues (Expenses)</b>			
Property taxes	69,912	0	69,912
Debt service charge	0	128,015	128,015
Tap fees	2,160	49,450	51,610
Interest income	11,424	21,079	32,503
Interest expense	(39,544)	(60,756)	(100,300)
Loss on disposal of assets	0	(462)	(462)
Total Non-Operating Revenues (Expenses)	43,952	137,326	181,278
<b>Change in Net Assets</b>	15,376	14,704	30,080
Net Assets - Beginning of year	918,677	1,148,576	2,067,253
Net Assets - End of year	\$934,053	\$1,163,280	\$2,097,333

See accompanying notes to the basic financial statements.

**CITY OF PETERSBURG**

*Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2008*

	Business-type Activities Enterprise Funds		
	Sewage Disposal	Water	Total
<b>Cash Flows from Operating Activities:</b>			
Receipts from customers	\$200,884	\$132,868	\$333,752
Payments to suppliers	(101,485)	(90,824)	(192,309)
Payments to employees	(94,460)	(56,018)	(150,478)
Net cash provided (used) by operating activities	4,939	(13,974)	(9,035)
<b>Cash Flows from Noncapital Financing Activities:</b>			
Receipts from water fund	10,839	0	10,839
Payments to sewer fund	0	(10,839)	(10,839)
Net cash provided (used) by noncapital financing activities	10,839	(10,839)	0
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Property taxes	69,912	0	69,912
Principal repayments	(30,000)	(115,000)	(145,000)
Purchase of capital assets	0	(51,304)	(51,304)
Interest paid	(39,900)	(65,413)	(105,313)
Debt service and connection charges	2,160	177,468	179,628
Net cash provided (used) by related financing activities	2,172	(54,249)	(52,077)
<b>Cash Flows from Investing Activities:</b>			
Proceeds on sale of investments	71,383	435,132	506,515
Purchase of investments	(220,000)	(208,999)	(428,999)
Interest income	11,897	21,079	32,976
Net cash provided (used) by related investing activities	(136,720)	247,212	110,492
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(118,770)	168,150	49,380
<b>Cash and Cash Equivalents - Beginning of Year</b>	287,088	182,006	469,094
<b>Cash and Cash Equivalents - End of Year</b>	\$168,318	\$350,156	\$518,474

See accompanying notes to the basic financial statements.

**CITY OF PETERSBURG**

*Proprietary Funds*

*Reconciliation of Operating Income and Cash and Cash Equivalents*

*For the Year Ended June 30, 2008*

	Business-type Activities Enterprise Funds		
	Sewage Disposal	Water	Total
<b>Reconciliations of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	(\$28,576)	(\$122,622)	\$0
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	35,544	113,260	148,804
Changes in assets and liabilities:			
Receivables	1,094	(2,144)	(1,050)
Due to (from) other funds	(892)	(4,908)	(5,800)
Accounts payable	(2,231)	2,440	209
Net cash used by operating activities	<u>\$4,939</u>	<u>(\$13,974)</u>	<u>\$142,163</u>
<b>Reconciliations of cash and cash equivalents:</b>			
Cash and cash equivalents	\$168,318	\$349,598	\$517,916
Restricted cash and cash equivalents	0	558	558
Total cash and cash equivalents	<u>\$168,318</u>	<u>\$350,156</u>	<u>\$518,474</u>

See accompanying notes to the basic financial statements.



**CITY OF PETERSBURG**

*Agency Fund*  
*Statement of Fiduciary Net Assets*  
*June 30, 2008*

---

**Assets**

Cash	\$28
Total Assets	\$28

**Liabilities**

Due to other taxing units	\$28
Total Liabilities	\$28

See accompanying notes to the basic financial statements.

## CITY OF PETERSBURG

### *Notes to Financial Statements*

*Year Ended June 30, 2008*

---

#### Note 1      Summary of Significant Accounting Policies

The financial statements of the City of Petersburg have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The following are the more significant of the City's accounting policies.

#### Basis of Presentation

##### A. Reporting Entity

The City of Petersburg, Michigan is governed by an elected seven member council. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

##### B. Discretely Presented Component Unit

The Brownfield Redevelopment Authority is a separate legal entity that was created to finance environmental cleanup within the City. The Authority's governing body is selected by the City Council, which has the authority to approve its budget.

##### C. Jointly Governed Organizations

The following are joint ventures the City participates in:

Summerfield-Petersburg Library - This is a joint venture, supported by Summerfield Township and the City of Petersburg, to provide a library for these two government units. This library is audited as part of the City of Petersburg. The Library Fund represents both the City's and the Township's respective shares of the Library. The statement of net assets and statement of activities eliminate the Township's share of the Library leaving only the City's interest in the joint venture.

Summerfield-Petersburg Joint Building Authority - The JBA was created by the City and Summerfield Township under the provisions of Act 31, Public Acts of 1948 of the State of Michigan (First Extra Session), as amended. The JBA is governed by a three member Board of Commissioners of which one member is appointed by the City, one member is appointed by the Township, and one member is appointed by joint action of the City and Township Commission. Because it is legally separate from the City, the JBA is not reported as part of the primary government. The JBA is reported as an investment in a joint venture accounted for in the governmental activities column of the statement of net assets. Additional information concerning the Joint Building Authority and its lease with the City is detailed in Note 8 – Capital Leases.

The City is unaware of any circumstances that would cause any additional benefit or burden to the participating parties in the above mentioned joint ventures.

## CITY OF PETERSBURG

*Notes to Financial Statements*  
*Year Ended June 30, 2008*

Note 1      Summary of Significant Accounting Policies (Continued)  
Basis of Presentation (Continued)

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City (the primary government) and its discretely presented component unit. The effect of interfund activity has been removed from these statements. Governmental activities are reported separately from business-type activities. Likewise, the primary government is reported separately from the discretely presented component unit for which the City is financially accountable. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities rely on user fees and charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items, properly excluded from program revenues, are reported as general revenue.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the individual enterprise funds are reported as separate columns in the fund financial statements.

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

## CITY OF PETERSBURG

### *Notes to Financial Statements* *Year Ended June 30, 2028*

#### Note 1

#### Summary of Significant Accounting Policies (Continued)

#### Basis of Presentation (Continued)

#### E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued) Fund Financial Statements (Continued)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. It is not the practice or intent of the City to recover depreciation expense with its user charges. The rates for the City's Enterprise Funds are intended to cover all expenses, except depreciation.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It is used to account for most of the day-to-day operations of the City which are financed from sales tax, property taxes and other general revenues. Activities financed by the general fund include those of line and staff departments within the City, except for activities of the enterprise funds.

Major Street Fund - To comply with the provisions of Act 51 P.A. of 1951, as amended, which provides that gas and weight tax moneys distributed by the State of Michigan to local units must be segregated from other moneys. This fund is used to account for revenues and expenditures that pertain to the construction and maintenance of major streets.

Local Street Fund - To comply with the provisions of Act 51 P.A. of 1951, as amended, which provides that gas and weight tax moneys distributed by the State of Michigan to local units must be segregated from other moneys. This fund is used to account for revenues and expenditures that pertain to the construction and maintenance of local streets.

Law Enforcement Fund - To account for voted millage levied specifically for law enforcement.

Library Fund - To account for monies collected from two local municipalities to operate the Summerfield-Petersburg Library.

Library Bond Fund - To account for voted millage levied specifically for payment to the Summerfield-Petersburg Joint Building Authority. The Fund also accounts for Summerfield Township's portion of the capital lease. Summerfield collects its own local millage, and submits its collection to the City who remits payment to the JBA.

## CITY OF PETERSBURG

### *Notes to Financial Statements* *Year Ended June 30, 2008*

---

#### Note 1 Summary of Significant Accounting Policies (Continued)

##### Basis of Presentation (Continued)

##### E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued) Fund Financial Statements (Concluded)

The City reports the following major proprietary funds:

Water Fund - To account for the provision of water services to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

Sewage Disposal Fund - To account for the provision of sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

Additionally, the City reports the following fiduciary fund type:

Agency Fund - Agency Funds are used to account for assets held by the City as an agent. The City has one agency fund which is described below:

Tax Collection Fund - to account for tax collection.

The City reports no nonmajor government funds.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

##### F. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Short-Term Interfund Receivables/Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

##### Investments

Investments are recorded at fair value, based on quoted market prices. Investments were comprised solely of certificates of deposit with original maturity dates of greater than three months.

## CITY OF PETERSBURG

### *Notes to Financial Statements Year Ended June 30, 2008*

Note 1      Summary of Significant Accounting Policies (Continued)  
Basis of Presentation (Continued)  
F. Assets, Liabilities, and Net Assets or Equity (Continued)

Accounts Receivable - Activity between funds with outstanding balances at the end of the fiscal year are reported "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". All trade and property tax receivables are shown net of allowance for doubtful accounts. Property taxes are levied based on taxable value at January 1 prior to July 1 and become due September 1, and past due after February 28. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting.

Accounts receivables from other governments include amounts due from grantors for approved grants for specific programs. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items. The prepaid balances, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Restricted Assets - Restricted assets in the Enterprise Funds are; cash set aside for the construction and maintenance of the new water line.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Infrastructure	50 years
Water and sewer distribution systems	50-100 years
Buildings and building improvements	30-50 years
Machinery and equipment	5-20 years
Computer equipment	3-10 years
Vehicles	3-10 years

Long-Term Obligations - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

## CITY OF PETERSBURG

### *Notes to Financial Statements* *Year Ended June 30, 2008*

---

Note 1      Summary of Significant Accounting Policies (Concluded)  
Basis of Presentation (Concluded)  
F. Assets, Liabilities, and Net Assets or Equity (Concluded)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans for future use of financial resources.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Budgetary Principles - The City is required by its charter to adopt an annual budget on or before June 30 for the ensuing fiscal year. The general, special revenue, and debt service governmental fund types and proprietary fund types have legally adopted budgets. From the effective date of the budget, the amounts stated therein as proposed expenditures/expenses become appropriations to the various City departments. Throughout the fiscal year the budget was amended to add supplemental appropriations. All amendments to the budget which change the total appropriation amount for any department require City Council approval and all increases in appropriations must be accompanied by an increase in revenue sources of a like amount to maintain a balanced budget.

GASB Statement No. 34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the basic financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis).

Budgeted revenue amounts represent the original budget modified by City Council-authorized adjustments during the year, which were contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Budgets are prepared in conformity with GAAP using the modified accrual basis of accounting.

Note 2      Deposits and Investments

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the City may not be deposited in financial institutions located in states other than Michigan.

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At June 30, 2008, the City of Petersburg had invested in such a fund with a local bank. The City is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

## CITY OF PETERSBURG

### Notes to Financial Statements Year Ended June 30, 2008

#### Note 2      Deposits and Investments (Concluded)

The Council has adopted an investment policy authorizing certain types of investments and authorized one depository: Monroe Bank and Trust.

*Custodial credit risk-deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. As of June 30, 2008, \$1,478,366 of the City's bank balance of \$1,378,366 was exposed to custodial credit risk deposits because it was uninsured and uncollateralized. The City does not have a deposit policy for custodial credit risk. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Custodial credit risk-investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has not adopted a policy that indicates how the City will minimize custodial credit risk.

*Interest rate risk.* The City's does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* State law limits investments in commercial paper to the top two ratings issued by nationally statistical rating organizations. The City has no investment policy that would further limit its investment choices.

*Concentration of credit risk.* The City does not have a formal investment policy that limits the amount the City may invest in any one issuer as a means of diversifying its investment portfolio.

The City's deposits and investments were reported in the statement of net assets under the following categories:

Cash and cash equivalents	\$ 732,636
Restricted cash	558
Investments	<u>721,160</u>
Total	<u>\$1,454,354</u>

#### Note 3      Stewardship, Accountability and Compliance

The City shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State Law for the General and Special Revenue Funds.

In the required supplemental information, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis, which is the adopted legal level of control.



# CITY OF PETERSBURG

## *Notes to Financial Statements* *Year Ended June 30, 2008*

### Note 3      Stewardship, Accountability and Compliance

During the year ended June 30, 2008, expenditures exceeded final budgeted as follows:

General government:			
Board of review	\$1,240	\$1,270	\$30
Cemetery	790	1,006	216
Public safety:			
Planning commission	9,522	11,997	2,475
Zoning board	250	290	40
Recreation and culture -			
Library	1,355	101,278	99,923
Other - Other fringes	48,855	48,874	19
Debt service - Principal	20,708	21,721	1,013
Major Street Fund			
Public works - Winter			
Maintenance	7,710	15,199	7,489
Local Street Fund			
Public works:			
Traffic services	370	920	550
Winter maintenance	5,797	10,617	4,820
Administrative and			
engineering	2,450	5,687	3,237
Law Enforcement Fund			
Public safety:			
Contract	90,000	93,340	3,340
Transportation	3,500	3,635	135
Equipment	9,930	23,463	13,533
Library Fund			
Recreation and culture -			
Contribution to JBA	0	12,900	12,900
Library Bond Fund			
Recreation and culture -			
Capital lease payment	0	56,112	56,112

Fund Deficits – The City has accumulated fund deficit in the Component Unit Brownfield Redevelopment Authority Fund in the amount of \$365,218. The deficit is a result of brownfield cleanup costs. The City has filed a deficit elimination plan with the State of Michigan. The City is currently pursuing remediation from prior owners of the property.

# CITY OF PETERSBURG

## *Notes to Financial Statements* *Year Ended June 30, 2008*

### Note 4      Interfund Receivable and Payable Balances

Interfund balances at June 30, 2008 consisted of the following individual fund receivables and payables:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund:		
Major Street Fund	\$12,532	
Local Street Fund	8,228	
Water Fund	27,422	
Sewage Disposal Fund	25,431	
Law Enforcement Fund	3,075	
Major Street Fund:		
General Fund		\$12,532
Water Fund	2,000	
Local Street Fund:		
General Fund		8,228
Sewage Disposal Fund	1,600	
Law Enforcement Fund:		
General Fund		3,075
Water Fund:		
General Fund		27,422
Sewage Disposal Fund	487	54,984
Major Street Fund		2,000
Sewage Disposal Fund:		
General Fund		25,431
Local Street Fund		1,600
Water Fund	54,984	487
Totals	<u>\$135,759</u>	<u>\$135,759</u>

### Note 5      Interfund Transfers

Interfund transfers for the year ended June 30, 2008 consisted of the following:

	<u>Transfers Out General Fund</u>
Transfers In:	
Library Fund	\$13,500
	<u>\$13,500</u>

The above transfer from the General Fund to the Library Fund represents the City's portion of the Library's operating revenue.

# CITY OF PETERSBURG

## *Notes to Financial Statements* *Year Ended June 30, 2008*

### Note 6 Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities:</b>				
Non-Depreciable Assets:	\$187,823	\$0	\$0	\$187,823
Land				
Depreciable Assets:				
Building	535,583	100,000	0	635,583
Land Improvements	70,148	0	0	70,148
Vehicles	76,630	23,463	0	100,093
Computers & Software	23,891	0	0	23,891
Office Equipment	25,738	0	0	25,738
Equipment	123,023	0	0	123,023
Heavy Equipment	156,026	0	0	156,026
Total capital assets	1,198,862	123,463	0	1,322,325
Less accumulated depreciation for:				
Building	(147,390)	(15,065)	0	(162,455)
Land Improvements	(46,034)	(3,508)	0	(49,542)
Vehicles	(56,016)	(5,346)	0	(61,362)
Computers & Software	(16,495)	(1,849)	0	(18,344)
Office Equipment	(14,156)	(2,523)	0	(16,679)
Equipment	(109,938)	(2,599)	0	(112,537)
Heavy Equipment	(45,664)	(7,801)	0	(53,465)
Total accumulated depreciation	(435,693)	(38,691)	0	(474,384)
Total Governmental Activities capital assets, net	\$763,169	\$84,772	\$0	\$847,941
<b>Business Activities:</b>				
Non-Depreciable Assets:				
Land	\$139,196	\$0	\$0	\$139,196
Depreciable Assets:				
Buildings	1,029,535	0	0	1,029,535
Sewer system	1,534,639	14,500	0	1,549,139
Machinery and equipment	529,604	0	(5,637)	523,967
Water system	3,076,208	51,304	0	3,127,512
Generator	22,010	0	0	22,010
Vehicles	2,960	0	0	2,960
Wells	232,961	0	0	232,961
Total capital assets	6,567,113	65,804	(5,637)	6,627,280
Less accumulated depreciation for:				
Buildings	(1,011,658)	(978)	0	(1,012,636)
Sewer system	(204,180)	(30,847)	0	(235,027)
Machinery and equipment	(380,655)	(17,257)	5,175	(392,737)
Water system	(464,859)	(98,988)	0	(563,847)
Generator	(16,202)	(734)	0	(16,936)
Vehicles	(2,960)	0	0	(2,960)
Wells	(195,282)	0	0	(195,282)
Total accumulated depreciation	(2,275,796)	(148,804)	5,175	(2,419,425)
Total Business Activities capital assets, net	\$4,291,317	(\$82,900)	(\$462)	\$4,207,855

# CITY OF PETERSBURG

## Notes to Financial Statements Year Ended June 30, 2008

### Note 6 Capital Assets (Concluded)

Depreciation expense was charged to functions as follows:

Depreciation expense was charged to functions as follows:

#### Governmental Activities:

General Government	\$17,277
Public Safety	528
Public Works	20,011
Recreational and Culture	875
Total Governmental Activities	<u>\$38,691</u>

#### Business-Type Activities

Sewer	\$35,544
Water	113,260
Total Business-Type Activities	<u>\$148,804</u>

### Note 7 Capital Leases

The City has entered into a lease agreement with the Summerfield-Petersburg Joint Building Authority (JBA) as lessee for financing the construction of the library facilities. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at present value of future minimum lease payments as of the inception date. The total cost of this lease was \$131,504 for the year ended June 30, 2008. Payments under this lease agreement for the year ended June 30, 2008 totaled \$8,978, including \$4,178 of interest charges. The future minimum lease obligation listed below represents the City of Petersburg's portion of the capital lease with the JBA.

The future minimum lease obligation and net present values as of June 30, 2008 are as follows:

Year Ended June 30	Joint Library Building
2009	\$9,132
2010	9,728
2011	9,490
2012	9,252
2013	9,014
2014	9,562
2015	9,274
2016	9,786
2017	9,462
2018	9,138
2019	9,596
2020	9,216
2021	9,636
2022	9,218
Total minimum lease payments	131,504
Less amount representing interest	<u>(36,304)</u>
Present value of minimum lease payments	<u>\$95,200</u>

# CITY OF PETERSBURG

## Notes to Financial Statements Year Ended June 30, 2008

### Note 8 Long-Term Debt

The following is a summary of changes in long-term debt:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
<b>Governmental Activities:</b>					
Purchase of building at 162 Walnut Street, loan payable - Monroe Bank and Trust, bearing interest of 4.40%.	\$86,714	\$0	\$21,721	\$64,993	\$22,719
2008 Capital Improvement Limited Tax General Obligation Bonds, bearing interest of 3.75%.	0	150,000	0	150,000	25,000
Capital lease of Summerfield-Petersburg library building	0	100,000	4,800	95,200	4,800
<b>Total Governmental Activities</b>	<b>\$86,714</b>	<b>\$250,000</b>	<b>\$26,521</b>	<b>\$310,193</b>	<b>\$52,519</b>
<b>Business-Type Activities:</b>					
2001 Sewer Plant Upgrades Limited Tax General Obligation Bonds, bearing interest of 4.75%.	\$855,000	\$0	\$30,000	\$825,000	\$40,000
2003 Water Main and Pumping Station Limited Tax General Obligation Bonds, bearing interest of 2.5%.	2,395,000	0	115,000	2,280,000	115,000
<b>Total Business-type Activities</b>	<b>\$3,250,000</b>	<b>\$0</b>	<b>\$145,000</b>	<b>\$3,105,000</b>	<b>\$155,000</b>

Annual debt service to maturity for the above obligations are as follows:

	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2009	\$52,519	\$11,836	\$155,000	\$93,800
2010	59,354	10,222	160,000	88,963
2011	54,120	7,800	165,000	84,001
2012	35,600	6,090	165,000	78,975
2013	40,600	4,726	180,000	73,649
2014-2018	34,400	12,822	1,000,000	277,465
2019-2023	33,600	4,066	1,110,000	102,933
2024-2028	0	0	170,000	2,125
	<b>\$310,193</b>	<b>\$57,562</b>	<b>\$3,105,000</b>	<b>\$801,911</b>

# CITY OF PETERSBURG

## Notes to Financial Statements Year Ended June 30, 2008

### Note 8 Long-Term Debt (Continued)

Installment loan - \$112,500 was taken out March 28, 2006, by the City of Petersburg for purchase of property at 162 Walnut Street. Funds necessary for payment of principal and interest will be financed by the General Fund.

Year Ended June 30	Interest Due	Principal Due	Total Requirements
2009	\$2,441	\$22,719	\$25,160
2010	1,406	23,754	25,160
2011	348	18,520	18,868
	<u>\$4,195</u>	<u>\$64,993</u>	<u>\$69,188</u>

General Obligation Capital Improvement Bonds - \$150,000 issue dated April 7, 2008, by the City of Petersburg for demolition and site improvements on property owned by the City. Funds necessary for payment of principal and interest will be financed by the General Fund.

Year Ended June 30	Interest Due		Principal Due	Total Requirements
	September 1	March 1	March 1	
2009	\$2,250	\$2,813	\$25,000	\$30,063
2010	2,344	2,344	30,000	34,688
2011	1,781	1,781	30,000	33,562
2012	1,219	1,219	30,000	32,438
2013	656	656	35,000	36,312
	<u>\$8,250</u>	<u>\$8,813</u>	<u>\$150,000</u>	<u>\$167,063</u>

General Obligation Sewer Bonds - \$995,000 issue dated February 1, 2001, by the City of Petersburg for sewer plant upgrades. Funds necessary for payment of principal and interest will be provided by a tax levy.

Year Ended June 30	Interest Due		Principal Due	Total Requirements
	October 1	April 1	October 1	
2009	\$19,594	\$18,644	\$40,000	\$78,238
2010	18,644	17,694	40,000	76,338
2011	17,694	16,744	40,000	74,438
2012	16,744	15,794	40,000	72,538
2013	15,794	14,606	50,000	80,400
2014	14,606	13,419	50,000	78,025
2015	13,419	11,994	60,000	85,413
2016	11,994	10,569	60,000	82,563
2017	10,569	9,144	60,000	79,713
2018	9,144	7,481	70,000	86,625
2019	7,481	5,819	70,000	83,300
2020	5,819	3,919	80,000	89,738
2021	3,919	2,019	80,000	85,938
2022	2,019	0	85,000	87,019
	<u>\$167,440</u>	<u>\$147,846</u>	<u>\$825,000</u>	<u>\$1,140,286</u>

# CITY OF PETERSBURG

## Notes to Financial Statements Year Ended June 30, 2008

### Note 8 Long-Term Debt (Concluded)

General Obligation Water Bonds - \$2,720,000 issue dated March 27, 2003, by the City of Petersburg for construction of new water main and pumping station. Funds necessary for payment of principal and interest will be provided by a one time connection fee to out of city residents, and quarterly debt charge.

Year Ended June 30	Interest Due		Principal Due	Total
	October 1	April 1	October 1	Requirements
2009	\$28,500	\$27,062	\$115,000	\$170,562
2010	27,063	25,562	120,000	172,625
2011	25,563	24,000	125,000	174,563
2012	24,000	22,437	125,000	171,437
2013	22,437	20,812	130,000	173,249
2014	20,812	19,125	135,000	174,937
2015	19,125	17,438	135,000	171,563
2016	17,438	15,688	140,000	173,126
2017	15,688	13,875	145,000	174,563
2018	13,875	12,062	145,000	170,937
2019	12,062	10,188	150,000	172,250
2020	10,188	8,250	155,000	173,438
2021	8,250	6,250	160,000	174,500
2022	6,250	4,187	165,000	175,437
2023	4,188	2,125	165,000	171,313
2024	2,125	0	170,000	172,125
	<u>\$257,564</u>	<u>\$229,061</u>	<u>\$2,280,000</u>	<u>\$2,766,625</u>

### Note 9 Property Taxes

The City bills and collects its own property taxes and also taxes for the County of Monroe, Monroe Intermediate School District, Monroe County Community College and Summerfield School District for 2008. The City tax was spread as follows:

General Fund	11.9952	mills
Law Enforcement Fund	4.8332	mills
WWTP Debt Fund	2.9170	mills
Library Bond	.5000	mills
	<u>20.2454</u>	mills

The City's 2007 summer and winter taxes were levied July 1, 2007 and December 1, 2007, respectively, on assessed valuation as of December 31, 2006 and were due and payable by August 31, 2007 and February 14, 2008, respectively. State equalized values amounted to \$32,287,500. Taxable value amounting to \$23,941,700 was comprised of \$18,001,279 homestead and \$5,940,421 non-homestead.

## CITY OF PETERSBURG

### *Notes to Financial Statements Year Ended June 30, 2008*

---

#### Note 10      Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by Security Benefit Life Insurance Co. The Plan, available to all permanent City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust for the exclusive benefit of employees. While the contract is held by the City of Petersburg, the assets of the plan are held for the exclusive benefit of plan participants and their beneficiaries. The plan assets cannot be used to satisfy claims of general creditors. Therefore, the amount held in trust is not shown on the balance sheet.

As of July 1, 2002, the City adopted the Municipal Employees' Retirement System of Michigan Defined Benefit Program (MERS). All permanent City employees, excluding the Treasurer, will begin contributing to MERS and stop any further contributions to the current deferred compensation plan.

#### Note 11      Employee's Pension Plan Plan Description

Effective July 1, 2002, the City of Petersburg is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System of Michigan (MERS), administered by the State of Michigan. The City's payroll for employees covered by the system for the year ended June 30, 2008 was \$214,545 out of a total of \$258,767.

All full time City employees excluding the Clerk and Treasurer, are eligible to participate in MERS. Benefits vest after 10 years of service. Enrolled City employees who retire at age 60 with 10 years, age 55 with 15 years and age 50 with 25 years of credited service are entitled to an annual retirement benefit based on a member's final average compensation (FAC). For this purpose, final average compensation means one-fifth of the aggregate amount of compensation (as defined in the MERS Plan Document, Section 2A(6) paid to a member during the period of 5 consecutive years of the member's credited service in which the aggregate compensation paid is highest. Monthly benefits are calculated by multiplying credited service at time of termination of membership by 2% of the member's five-year final average compensation. The retirement allowance is reduced  $\frac{1}{2}$  of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. There is no mandatory retirement age. The system also provides death and disability benefits. Benefits are established by State statute and City Council resolution.

The Municipal Employees Retirement System of Michigan issues a publicly available financial report which may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48197.



# CITY OF PETERSBURG

## Notes to Financial Statements Year Ended June 30, 2008

### Note 11 Employee's Pension Plan (Concluded)

#### Funding Policy

General employees will contribute 5.0% of their salary to the plan. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by State statute. The City's annual required contribution was \$13,232 for the fiscal year ending June 30, 2008. The contribution requirements of plan members and the City are established by the City and by the MERS Board of Trustees. The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age normal cost method.

Significant actuarial assumptions include: 1.) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, 2.) projected salary increases of 4.5% per year compounded annually, attributable to inflation, 3.) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, and 4.) the assumption that benefits will increase 2.5% per year (annually) after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 30 years.

#### Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

The employees contribution to MERS for the year ended June 30, 2008, of \$10,727 (5% current covered payroll) was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of December 31, 1990. The City contributed \$13,232; employees contributed \$10,797 (5% current covered payroll).

#### Trend Information

	Valuation Ended December 31,		
	2005	2006	2007
Annual pension cost	\$10,246	\$ 12,112	\$13,232
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-
Actuarial value of assets	86,071	115,476	148,257
Actuarial accrued liability (entry age)	131,182	162,059	199,990
Unfunded (overfunded) AAL	45,111	46,583	51,733
Funded ratio	66%	71%	74%
Annual covered payroll	199,994	202,097	210,206
UAAL as a percentage of annual covered payroll	23%	23%	25 %

## CITY OF PETERSBURG

### *Notes to Financial Statements* *Year Ended June 30, 2008*

Note 12      Tax Increment Financing

Tax increment financing is the setting aside of the taxes generated by an increase in the state equalized value of designated properties for a specific purpose. On January 20, 2006, the City adopted a Brownfield Redevelopment Authority to assist in financing the clean-up and development of a Brownfield area. The City will advance the funds to the Brownfield Redevelopment Authority (BRA) for the eligible activities as described in the environmental work plan. The City of Petersburg BRA will reimburse the City for as much of the costs as possible using a collection of local and school tax increment revenues under the Act 381 program. As of June 30, 2008, no taxes have been set aside. Taxes will begin, once the City has cleaned up the property and sold it to another party.

Note 13      Building Department

The City tracks building permit fees and their related costs in the General Fund. Fees for the fiscal year ending June 30, 2008 of \$2,307 did not exceed the related costs and administrative overhead.

Note 14      Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman's compensation). The City has purchased commercial insurance for property loss, torts, errors, omissions and employee injuries.

Note 15      Due from Component Unit

As described in Note 12, The City of Petersburg BRA will reimburse the City for as much of the costs as possible using a collection of local and school tax increment revenues under the Act 381 program. As of June 30, 2008, the City's general fund has advanced the BRA \$365,218. Repayment from the BRA will not begin until the City is able to sell the property and collect local and school tax increment revenues.

# CITY OF PETERSBURG

## General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property taxes	\$284,383	\$284,383	\$288,891	\$4,508
Licenses and permits	12,734	12,734	12,104	(630)
State grants	139,500	139,500	144,796	5,296
Charge for services	10,500	10,500	10,282	(218)
Interest and rentals	28,000	28,000	37,384	9,384
Administrative charges	27,200	27,200	23,616	(3,584)
Other revenue	22,000	22,000	11,481	(10,519)
Total Revenues	524,317	524,317	528,554	4,237
<b>Expenditures</b>				
Legislative:				
Council	14,170	14,170	12,318	1,852
General government:				
Mayor	3,748	3,748	2,021	1,727
Elections	3,550	3,550	3,279	271
Assessor	7,900	7,900	6,992	908
Attorney	25,000	19,645	8,090	11,555
Clerk	37,938	37,938	34,842	3,096
Audit	4,300	5,553	4,800	753
Board of review	1,240	1,240	1,270	(30)
Treasurer	32,670	32,670	30,168	2,502
Cemetery	790	790	1,006	(216)
City hall	10,460	10,460	9,344	1,116
Public relations	5,500	8,000	5,890	2,110
Forestry	23,985	23,985	20,747	3,238
	157,081	155,479	128,449	27,030
Public safety:				
Fire department	28,350	48,625	37,375	11,250
Inspections	17,160	17,160	15,767	1,393
Planning commission	3,522	9,522	11,997	(2,475)
Zoning board	250	250	290	(40)
	49,282	75,557	65,429	10,128

**CITY OF PETERSBURG**

*General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2008*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Expenditures (Concluded)</b>				
Public works:				
Department of public works	\$137,640	\$110,315	\$99,242	\$11,073
Street lighting	25,000	25,000	24,050	950
Sanitation	4,000	1,500	832	668
	<u>166,640</u>	<u>136,815</u>	<u>124,124</u>	<u>12,691</u>
Health and welfare:				
Mosquito control	7,478	7,478	1,390	6,088
Recreation and cultural:				
Parks and recreation	11,073	11,073	8,643	2,430
Library	305	1,355	101,278	(99,923)
	<u>11,378</u>	<u>12,428</u>	<u>109,921</u>	<u>(97,493)</u>
Other:				
Insurance and bonds	16,000	16,000	14,661	1,339
Workmans compensation	4,500	4,500	1,221	3,279
Other fringes	44,752	48,855	48,874	(19)
	<u>65,252</u>	<u>69,355</u>	<u>64,756</u>	<u>4,599</u>
Debt service:				
Principal	20,708	20,708	21,721	(1,013)
Interest	4,452	4,452	3,439	1,013
	<u>25,160</u>	<u>25,160</u>	<u>25,160</u>	<u>0</u>
Total Expenditures	<u>496,442</u>	<u>496,442</u>	<u>531,547</u>	<u>(35,105)</u>
Excess (Deficiency) of Revenues Over Expenditures	27,875	27,875	(2,993)	39,342
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of bonds	0	150,000	150,000	0
Proceeds from capital lease	0	0	100,000	100,000
Operating transfers out	(13,500)	(13,500)	(13,500)	0
Total Other Financing Sources (Uses)	<u>(13,500)</u>	<u>136,500</u>	<u>236,500</u>	<u>100,000</u>
<b>Net Change in Fund Balances</b>	14,375	164,375	233,507	139,342
Fund Balances - Beginning of year	522,178	522,178	522,178	0
Fund Balances - End of year	<u>\$536,553</u>	<u>\$686,553</u>	<u>\$755,685</u>	<u>\$139,342</u>

**CITY OF PETERSBURG**

*Major Street Fund*  
*Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Budget and Actual*  
*Year Ended June 30, 2008*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
State grants:				
Gas and weight tax:	\$66,608	\$66,608	\$64,115	(\$2,493)
Interest	<u>150</u>	<u>150</u>	<u>459</u>	<u>309</u>
Total Revenues	66,758	66,758	64,574	(2,184)
<b>Expenditures</b>				
Public works:				
Routine maintenance	50,857	50,857	12,178	38,679
Traffic services	3,105	3,105	1,067	2,038
Winter maintenance	7,710	7,710	15,199	(7,489)
Administrative and engineering	<u>3,700</u>	<u>3,700</u>	<u>2,838</u>	<u>862</u>
Total Expenditures	<u>65,372</u>	<u>65,372</u>	<u>31,282</u>	<u>34,090</u>
<b>Net Change in Fund Balances</b>	1,386	1,386	33,292	31,906
Fund Balances - Beginning of year	<u>12,344</u>	<u>18,505</u>	<u>18,505</u>	<u>0</u>
Fund Balances - End of year	<u><u>\$13,730</u></u>	<u><u>\$19,891</u></u>	<u><u>\$51,797</u></u>	<u><u>\$31,906</u></u>

**CITY OF PETERSBURG**

*Local Street Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2008*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
State grants:				
Gas and weight tax	\$21,579	\$21,579	\$20,776	(\$803)
Interest	125	125	1,052	927
Total Revenues	21,704	21,704	21,828	124
<b>Expenditures</b>				
Public works:				
Routine maintenance	13,087	13,087	6,335	6,752
Traffic services	370	370	920	(550)
Winter maintenance	5,797	5,797	10,617	(4,820)
Administrative and engineering	2,450	2,450	5,687	(3,237)
Total Expenditures	21,704	21,704	23,559	(1,855)
<b>Net Change in Fund Balances</b>	0	0	(1,731)	(1,731)
Fund Balances - Beginning of year	41,272	50,466	50,466	0
Fund Balances - End of year	\$41,272	\$50,466	\$48,735	(\$1,731)

**CITY OF PETERSBURG**

*Law Enforcement Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2008*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property taxes	\$114,585	\$114,585	\$116,106	\$1,521
State grants:				
Liquor license fees	825	825	825	0
Interest and other	405	405	427	22
<b>Total Revenues</b>	<b>115,815</b>	<b>115,815</b>	<b>117,358</b>	<b>1,543</b>
<b>Expenditures</b>				
Public safety:				
Contract with Monroe County	90,000	90,000	93,340	(3,340)
Salaries	1,235	1,235	609	626
Transportation	3,500	3,500	3,635	(135)
Maintenance	4,700	4,700	2,972	1,728
Equipment	9,930	9,930	23,463	(13,533)
Utilities	3,125	3,125	2,060	1,065
Miscellaneous	200	200	0	200
Supplies	2,300	2,300	995	1,305
<b>Total Expenditures</b>	<b>114,990</b>	<b>114,990</b>	<b>127,074</b>	<b>(12,084)</b>
Excess (Deficiency) of Revenues Over Expenditures	825	825	(9,716)	(10,541)
<b>Net Change in Fund Balances</b>	<b>825</b>	<b>825</b>	<b>(9,716)</b>	<b>(10,541)</b>
Fund Balances - Beginning of year	64,529	64,529	64,529	0
Fund Balances - End of year	\$65,354	\$65,354	\$54,813	(\$10,541)

**CITY OF PETERSBURG**

*Library Fund*  
*Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Budget and Actual*  
*Year Ended June 30, 2008*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Local contributions:				
Summerfield Township	\$13,500	\$13,500	\$13,500	\$0
Interest and rentals	0	0	2,225	2,225
Other	0	0	500	500
<b>Total Revenues</b>	<b>13,500</b>	<b>13,500</b>	<b>16,225</b>	<b>2,725</b>
<b>Expenditures</b>				
Recreation and culture:				
Library	27,000	27,000	26,016	984
Contribution to Building Authority	0	0	12,900	(12,900)
<b>Total Expenditures</b>	<b>27,000</b>	<b>27,000</b>	<b>38,916</b>	<b>(11,916)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(13,500)</b>	<b>(13,500)</b>	<b>(22,691)</b>	<b>(9,191)</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	13,500	13,500	13,500	0
<b>Net Change in Fund Balances</b>	<b>0</b>	<b>0</b>	<b>(9,191)</b>	<b>(9,191)</b>
Fund Balances - Beginning of year	29,632	29,632	29,632	0
Fund Balances - End of year	<u>\$29,632</u>	<u>\$29,632</u>	<u>\$20,441</u>	<u>(\$9,191)</u>



**CITY OF PETERSBURG**

*Library Bond Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2008*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property taxes	\$0	\$0	\$12,011	\$12,011
Local contributions:				
Summerfield Township	0	0	61,629	61,629
Interest	0	0	529	529
Total Revenues	0	0	74,169	74,169
<b>Expenditures</b>				
Debt service:				
Capital lease principal	0	0	30,000	(30,000)
Capital lease interest and fees	0	0	26,212	(26,212)
Total Expenditures	0	0	56,212	(56,212)
<b>Net Change in Fund Balances</b>	0	0	17,957	17,957
Fund Balances - Beginning of year	0	0	0	0
Fund Balances - End of year	\$0	\$0	\$17,957	\$17,957



COOLEY HEHL  
WOHLGAMUTH & CARLTON  
P. L. L. C. Certified Public Accountants

James R. Cooley, CPA  
David K. Hehl, CPA  
Robert W. Wohlgamuth, CPA  
Peter H. Carlton, CPA  
Matthew D. Hehl, CPA  
Deborah A. Sabo, CPA  
Nicklaus W. Calkins, CPA

One South Monroe Street • Monroe, Michigan 48161-2230  
Telephone: (734) 241-7200 • Fax: (734) 241-2637  
www.chwccpa.com

Members:  
American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants  
Division for CPA Firms American Institute of  
Certified Public Accountants

City Council  
City of Petersburg  
Petersburg, Michigan 49270

In planning and performing our audit of the financial statements of the City of Petersburg as of and for the year ended June 30, 2008 in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

#### Budgets

The Budget Act 621 provides for a system of uniform procedures for preparation and execution of budgets of local units of government. We would like to point out certain aspects of this law as it applied to the City and its 2007/08 budget. Expenditures cannot exceed appropriated amounts. The budget should be compared with the actual expenditures throughout the year and amended when necessary. The budget may be amended more than once and at any time during the year. If the Council finds it necessary to amend the budget, we recommend they commence formal action and document approval in minutes to the meetings. We remind the City it is on the modified accrual method, a method which records an expenditure when the liability is incurred and not necessarily when paid. Also, the budget should include the amount of fund balance (deficit) accumulated from prior years. We would be happy to review the City's budget for compliance with the Act at any time.

-2-

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Financial Statements

The City does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenues and expenditures, to track changes in capital assets, and to present required financial statement disclosures. As is the case with many smaller and medium-sized entities, the government has historically relied on independent external auditors to assist in the preparation of the government-wide financial statements and footnotes. As a result of this condition, the government lacks internal controls over the preparation of the financial statements in accordance with GAAP.

We appreciate the cooperation and courtesy extended to us by the officials and employees of the City during the audit engagement. We are encouraged by the City's efforts to improve and maintain a sound internal accounting control system and by the efficiency of those people involved. It is our pleasure to have been of service to the City of Petersburg.

Very truly yours,



December 3, 2008